

# FDIC State Profile

Winter 2004

## Texas

Texas job growth is forecast to exceed the nation.

- After three years of lagging the U.S. economy, Texas is primed to grow slightly faster than the nation in 2005 (See Chart 1).
- The expansion of the professional and business sector and the leisure and hospitality services sector is aiding the state's improving economy, along with solid growth in health and educational services. Additionally, the construction and transportation sectors are reporting accelerating year-over-year job growth, while the economic drag from the ailing manufacturing and information sectors is diminishing.
- Continued U.S. economic growth and global trade, coupled with favorable population trends and relatively low business and living costs, will contribute to the state's economic growth in 2005.

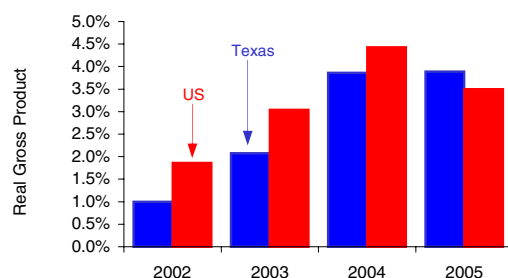
Natural resource and mining employment growth slowed despite record oil prices.

- Texas natural resources and mining employment growth decelerated in third quarter 2004 despite oil prices that were 45 percent higher than the year before.
- This employment decline can be attributed, in part, to the ongoing shift in oil exploration and development away from Texas to other parts of the world.
- According to the National Association of Business Economics outlook, strong economic fundamentals are expected to support oil prices above \$40 per barrel through 2005, resulting in continued job growth for this sector.
- Although higher energy prices impose additional costs to consumers and industrial users, prices will provide a slightly positive benefit to the state.<sup>1</sup>

Easy come, easy go as fortunes for state metropolitan areas change.

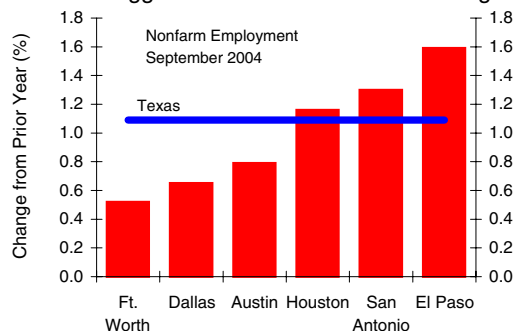
- In a reversal of fortunes, the metropolitan areas of **Dallas, Ft. Worth**, and **Austin** continue to exhibit job growth

Chart 1. Texas Economy is Forecast to Grow Slightly Faster Than The U.S. in 2005



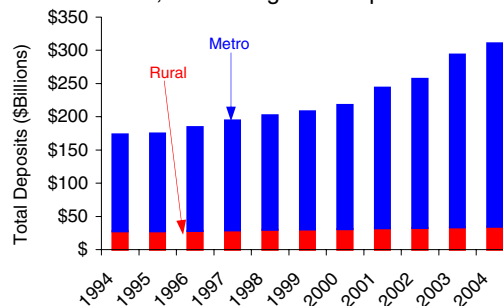
Sources: Bureau of Economic Analysis, Economy.com, and November 2004 Blue Chip Economic Indicators

Chart 2. Dallas, Ft. Worth & Austin - Leaders in 1990s - Lagged the State Job Growth Average



Source: Bureau of Labor Statistics

Chart 3. Deposit Growth Remains Primarily In Metro Areas, Coinciding With Population Gains



Source: FDIC/OTS Summary of Deposits, Data as of June 30th each year.

<sup>1</sup>November 2004 Economy.com Regional Teleconference.

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rates that are lagging the statewide average (See Chart 2).

- Extended weaknesses in the airlines, telecommunications, and semiconductor and personal computer industries have restrained growth in these areas. Meanwhile, foreign trade, oil prices, tourism, and defense spending have bolstered the economies of *El Paso*, *Houston* and *San Antonio*.
- As the U.S. expansion strengthens in 2005, economic and employment growth in the state's largest metropolitan areas likely will continue to accelerate.

### Despite weak employment growth, population growth in the largest cities has surpassed the state.

- Population growth rates in the metropolitan areas of Dallas/Fort Worth, Austin, Houston, and San Antonio have exceeded the state since 2001.
- Many of these new residents were enticed to relocate by the expanding leisure and hospitality industry, which has finally seen a revival since 9/11.
- Additionally, many professionals are moving to take advantage of the educational and health care opportunities as well as professional business services that larger cities provide.
- This influx of new residents provides the metro areas with an abundant labor supply and increased prospects for local lenders.

### Texas markets remain on the front burner of bank deposit and branch growth because of strong population growth.

- Texas is home to three of the nation's ten largest cities. The state's population expanded almost 23 percent between 1990 and 2000, making Texas the second most populous state behind California.
- Population growth tends to propel economic activity and stimulate the need for banking offices and services. Indeed, the state's attractive demographics and banks' interest in capturing market share have ranked Texas second in the country for fastest branch growth during the past five years, fifth highest in terms of deposit growth.<sup>2</sup>
- While small banks (less than \$1 billion in assets) have maintained a steady share of deposits, large banks (both in state and out-of-state) have experienced the lion's share of deposit and office growth (See Chart 3).
- Metropolitan areas held an increasing level of branches (80 percent) and deposits (89 percent) in 2004, up from 76 percent and 84 percent, respectively, in 1994.

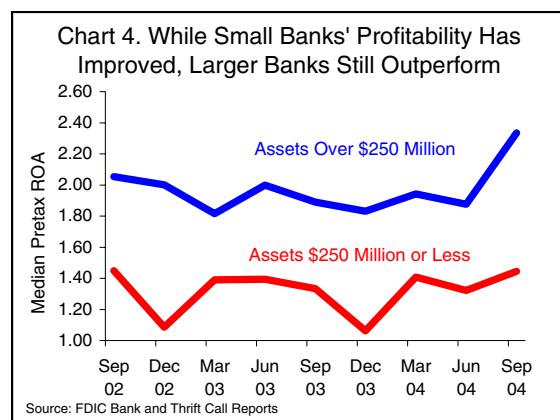
- Looking forward, John Heasley, Texas Bankers Association executive vice president, said this trend is not expected to subside anytime soon, particularly in the urban centers and along the Interstate 35 corridor.<sup>3</sup>

### Large financial institutions continue to outperform smaller ones.

- The performance gap is growing between larger banks (over \$250 million in assets) and smaller banks, which represent 84 percent of Texas insured institutions (See Chart 4).
- A modest improvement in net interest margins (NIMs) during the third quarter has been especially positive for smaller, more NIM-dependent banks. However, larger banks continue to exhibit a comparative advantage in operating efficiencies and an ability to generate sources of other non-interest income.
- Asset quality remains strong for insured institutions, with past-due and charge-off rates among the lowest levels in a decade. Texas median past-due ratios ranked 14th nationwide for third quarter 2004.

### Consumer fundamentals show signs of improvement.

- Both bankruptcy and foreclosure rates decreased in second quarter 2004. The statewide foreclosure rate especially improved, falling to its lowest level in almost two years.
- In 2003, Texans voted for a constitutional amendment that would allow homeowners to avail themselves of home equity lines of credit (HELOC). Additionally, more consumers are turning to HELOCs as a source of cash in response to the recent cooling in mortgage refinancings. These two factors have combined to fuel a 92 percent year-over-year growth rate in Texas HELOCs as of September 2004, twice that of the nation.



<sup>2</sup>Based on a compounded growth rate for offices other than main office locations.

<sup>3</sup>Pack, William, "Merger Commotion Reshapes Banking Landscape in Texas," San Antonio Press, November 11, 2004.

## Texas at a Glance

<b>General Information</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Institutions (#)	686	706	718	741	774
Total Assets (in thousands)	211,094,952	221,062,644	211,887,711	192,422,748	225,750,004
New Institutions (# < 3 years)	21	22	18	21	30
New Institutions (# < 9 years)	57	55	54	52	48
<b>Capital</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Tier 1 Leverage (median)	9.58	9.12	9.16	9.03	9.29
<b>Asset Quality</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Past-Due and Nonaccrual (median %)	1.70%	2.07%	2.16%	2.07%	1.81%
Past-Due and Nonaccrual >= 5%	68	95	103	102	83
ALLL/Total Loans (median %)	1.24%	1.28%	1.24%	1.19%	1.20%
ALLL/Noncurrent Loans (median multiple)	2.11	1.77	1.54	1.75	2.11
Net Loan Losses/Loans (aggregate)	0.29%	0.39%	0.39%	0.38%	0.31%
<b>Earnings (Year-to-Date Annualized)</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Unprofitable Institutions (#)	46	41	45	46	36
Percent Unprofitable	6.71%	5.81%	6.27%	6.21%	4.65%
Return on Assets (median %)	1.09	1.05	1.18	1.13	1.29
25th Percentile	0.73	0.68	0.74	0.77	0.93
Net Interest Margin (median %)	4.22%	4.23%	4.52%	4.46%	4.79%
Yield on Earning Assets (median)	5.41%	5.65%	6.43%	7.81%	8.23%
Cost of Funding Earning Assets (median)	1.08%	1.40%	1.96%	3.37%	3.43%
Provisions to Avg. Assets (median)	0.11%	0.14%	0.18%	0.14%	0.14%
Noninterest Income to Avg. Assets (median)	0.92%	0.93%	0.88%	0.87%	0.89%
Overhead to Avg. Assets (median)	3.38%	3.34%	3.36%	3.37%	3.42%
<b>Liquidity/Sensitivity</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
Loans to Deposits (median %)	66.32%	63.52%	63.61%	62.96%	62.12%
Loans to Assets (median %)	56.87%	54.84%	54.90%	54.93%	54.32%
Brokered Deposits (# of Institutions)	77	72	59	51	42
Bro. Deps./Assets (median for above inst.)	3.68%	2.92%	3.85%	1.96%	2.51%
Noncore Funding to Assets (median)	16.50%	16.21%	16.47%	16.58%	15.90%
Core Funding to Assets (median)	71.54%	72.62%	72.03%	71.82%	73.02%
<b>Bank Class</b>	<b>Sep-04</b>	<b>Sep-03</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>
State Nonmember	290	294	297	303	319
National	314	324	333	346	361
State Member	40	42	42	43	44
S&L	9	11	11	12	10
Savings Bank	11	12	12	13	15
Stock and Mutual SB	22	23	23	24	25
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	363	36,189,390	52.92%	17.14%	
Dallas TX PMSA	72	23,550,310	10.50%	11.16%	
Houston TX PMSA	47	37,109,888	6.85%	17.58%	
Ft Worth-Arlington TX PMSA	39	8,503,212	5.69%	4.03%	
Austin-San Marcos TX	19	18,462,226	2.77%	8.75%	
San Antonio TX	16	28,690,813	2.33%	13.59%	
Longview-Marshall TX	12	1,616,858	1.75%	0.77%	
Waco TX	11	1,726,159	1.60%	0.82%	
Lubbock TX	11	7,692,081	1.60%	3.64%	
Killeen-Temple TX	10	2,728,844	1.46%	1.29%	
McAllen-Edinburg-Mission TX	10	10,902,436	1.46%	5.16%	
Corpus Christi TX	8	1,983,991	1.17%	0.94%	
Odessa-Midland TX	7	1,721,754	1.02%	0.82%	
Brazoria TX PMSA	6	671,840	0.87%	0.32%	
All Other MSAs	55	29,545,150	8.02%	14.00%	